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C O N F I D E N T I A L DUBAI 00265

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RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHDE/AMCONSUL DUBAI 3735
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C O N F I D E N T I A L SECTION 01 OF 03 DUBAI 000265

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E.O. 12958: DECL: 1/17/2015
TAGS: [EPET](#) [PREL](#) [TC](#) [IR](#)
SUBJECT: UAE-IRAN PIPELINE REPORTEDLY MOVING AHEAD

REF: A) 04 DUBAI 67; B) 04 ABU DHABI 1701; C) 04 DUBAI 1897; D) 04 ABU
ABI 1540

CLASSIFIED BY: Jason Davis, Consul General, Dubai , UAE.
REASON: 1.4 (b), (d)

¶1. (C) Summary: Progress on Crescent Petroleum's project to pipe gas from Iran into the UAE, reported reftels, continues apace according to our contacts in the industry. The project looks likely be completed in 2005 or 2006. Contracts for the project's required new infrastructure -- an offshore platform, 80 kilometers of pipeline, and a new desulfurization plant -- have all been awarded, and construction is underway. To be feasible, the project will likely require participation by BP Sharjah, whose lawyers are currently studying ILSA-related concerns. A key Abu Dhabi official continues to say that Abu Dhabi has not approved this project and does not intend to pay for any gas purchase agreement from Iran. End Summary.

SajGas Project -- Gas from Iran

¶2. (C) As reported reftels, Sharjah-based Crescent Petroleum is heavily involved in a project aimed at bringing gas from an offshore Iranian gas field into the UAE. In early January, in order to assess the progress that was being made, PolEconoff spoke with three top executives involved with Crescent's project: Junichi Tsuji, Middle East CEO of Itochu Corporation; Abdulkarim Al Mamsi, GM of British Petroleum (BP) Sharjah; and Rashid Al Shamsi, GM of federally owned Emarat Petroleum.

¶3. (U) According to the above interlocutors, Crescent Petroleum plans to connect Sharjah's already existing gas-handling plants

and pipelines to new pipelines bringing gas from Iran's offshore Salman field. Crescent and the government of Sharjah, along with investors from Saudi, Bahrain, Kuwait, Abu Dhabi, and Sharjah, formed a new joint venture in 2004 called Sajaa Gas Private Company (SajGas) to effect this project. Contacts tell us that almost all of the pieces of the SajGas project have already been tendered, awarded, and started construction.

80 KM of New Pipeline

¶4. (C) Junichi Tsuji of Itochu Corp told PolEconoff that Crescent had already signed a deal with the National Iranian Gas Exporting Company (NIGEC), a subsidiary of the National Iranian Oil Company (NIOC). The deal stipulates that NIGEC will build a sub-sea pipeline connecting Iran's Salman field to Sharjah's offshore Mubarak platform. A USD ten million contract for engineering and modifying Mubarak platform to enable it to receive the Salman gas has already been awarded to Sharjah-based Maritime Industrial Services.

¶5. (C) The existing pipeline from Mubarak to Sharjah is insufficient to handle the increased volume of gas, however, so -- according to Tsuji and media reports -- a new 30-inch sub-sea pipeline, 50 km in length, will be laid to connect Mubarak to Sharjah's Hamriyah Free Zone and port. From there, a new 30-inch land-based pipeline will stretch 30 km to connect Hamriyah to Sharjah's Sajaa gas field, with existing gas handling facilities and a pipeline network that supplies gas to Sharjah Electricity and Water Authority (SEWA) and Federal Electricity and Water Authority (FEWA) customers throughout the northern Emirates. The USD 109 million contract for building the Hamriyah to Sajaa pipeline has been awarded to Abu Dhabi-based National Petroleum Construction Company (NPCC), and Itochu has already delivered much of the pipeline material. (Note: NPCC is 70 percent owned by the General Holding Company, an Abu Dhabi government-owned company headed by Sheikh Hamed bin Zayed Al Nahyan, Chairman of the Abu Dhabi Department of Planning and Economy.)

¶6. (C) The pipeline to Sajaa will terminate at a new USD 88 million desulfurization plant, awarded by SajGas to Sharjah-based Petrofac International and already under construction. This plant will eventually be able to sweeten 600 million standard cubic feet per day (mmscfd), though Al Mamzi said it would initially have a capacity of 200-300 mmscfd and be ramped up from there. This plant is being built adjacent to BP Sharjah's gas separation plant. Tie-ins built by Petrofac will reportedly carry gas from the sweetening plant to BP's plant, where the Iranian gas will be processed, pressurized, and sent to FEWA, SEWA, and other potential customers through the pipelines emanating from BP's plant. As reported Ref A, Crescent has already signed a deal with FEWA to supply the gas from this project; while the source of the gas is not specified, contacts tell us it is common knowledge that it will come mainly from Iran. Al Shamsi said the gas coming from Mubarak would be a mix of gas from Sharjah's existing Mubarak field and Iran's Salman field, but that whereas Mubarak only produces between 40 and 60 mmscfd, the new 80 kilometers of pipeline from Mubarak to Sajaa will, like the new desulfurization plant, have a capacity of 600 mmscfd. The numbers strongly suggest that the vast majority of the new gas FEWA will receive will be coming from the Iranian field.

BP Sharjah President's Take

¶7. (C) Asked by PolEconoff whether the SajGas project would go to completion, allowing Sharjah to begin importing Iranian gas, BP's Al Mamzi replied, "That depends on you." He expected that without "a call from Washington," the project would be completed "perhaps not in 2005, but in 2006." Al Mamzi also expressed surprise at how emboldened Crescent had become. When SajGas was first bruited, Crescent kept it hushed up. Now, Al Mamzi said, "the plan to bring in Iranian gas is being reported in the media, and oilmen talk openly about it in the corridors. Everything I've told you is common knowledge." He said that Crescent had carefully locked in allies in Abu Dhabi and elsewhere, such as through the NPCC contract (see para 5). "Now

is a crucial time (for the US to intervene if intends to)," Al Mamzi concluded.

¶8. (C) Al Mamzi said that as a US-registered company concerned about ILSA, BP Sharjah had a policy of not talking to Crescent. But Al Mamzi had heard secondhand that Crescent CEO Hamid Jaffar had been telling people that he had notified the US government of his plan to bring Iranian gas to Sharjah, and the USG had "done nothing." (Note: In reality, as reported Refs B and C, we have repeatedly expressed USG concerns about this project both to the UAEG and to Jaffar at Crescent.)

¶9. (C) The gas separation and pressurization plant run by BP Sharjah is actually owned by Sharjah LPG Company (Shalco), a joint venture among the government of Sharjah (60%), BP Sharjah (25%), and the Japan-based corporations of Itochu (7.5%) and Tokyo Boeki (7.5%). Al Mamzi said it would be "vital" for the viability of SajGas for its Iranian gas to connect up to the BP Sharjah plant. BP Sharjah (formerly Amoco Sharjah) has so far refused to agree to process SajGas gas because of ILSA concerns. Al Mamzi said he was in a difficult position, as BP's refusal to play ball had led to his receiving direct and strong pressure "from the (Sharjah) Ruler's Office." Al Shamsi admitted that Crescent was in talks with UK-based BP International in Abu Dhabi, and that BP's lawyers were still reviewing their options, which include allowing SajGas to buy out BP's 25 percent share in Shalco or -- more likely in Al Mamzi's view -- finding a way to assuage the BP lawyers' ILSA concerns without actually selling BP's share. (Note: BP's Washington-based Director for International Affairs, Gregory Saunders, met Abu Dhabi A/DCM on January 16. He said that BP was very concerned about this project and that it looked "far more serious" than they had thought a few months earlier. He also assured A/DCM that BP was looking very closely at making sure that it did not violate ILSA and stressed that BP would "play it straight." End Note.)

Emarat GM's View

¶10. (C) Rashid Al Shamsi, GM of Emarat petroleum, told PolEconoff that he and his colleagues in the industry used to bet against Crescent's Iranian pipeline coming to fruition. Al Shamsi thought that the Dolphin project and its Abu Dhabi patrons would effectively "shut down" the project. But Dolphin has still not signed an agreement with FEWA, SEWA, or Dubai, three of its planned major customers. The reason, according to Al Shamsi, is that they all find Dolphin's price too high. Crescent's Iranian gas, however, would be significantly cheaper. Al Shamsi said that he and his colleagues now calculated that the project probably would go forward. "Crescent has invested too much to shut this project down," he added. Entities that take delivery of gas using Emarat's pipelines regularly notify Emarat of how much gas they will require; Al Shamsi said that FEWA had for the first time notified Emarat recently that it would be receiving gas from the SajGas project in September 2005.

Abu Dhabi Perspective

¶11. (C) A/DCM Abu Dhabi met with Abu Dhabi Executive Council Member and COO of the Emirate of Abu Dhabi owned Mubadala Development Company Khaldoon Al-Mubarak to discuss the Crescent-Iran gas deal and the talks between the Emirate of Abu Dhabi and Iran about the supply of gas to the UAE. Al-Mubarak was fully aware of Crescent's progress in putting together the infrastructure to supply Iranian gas to the UAE. He emphasized, however, that Abu Dhabi has not approved the deal, nor has it agreed to purchase any Iranian gas on behalf of the UAE. He noted that gas deals need purchasers as well as sellers, implying that the northern emirates of the UAE would be unable to afford Iranian gas without Abu Dhabi financial assistance, which was not forthcoming.

¶12. (C) Al-Mubarak stated that the emirate of Abu Dhabi has undertaken to ensure that the UAE has sufficient energy to meet its needs. The vehicle for meeting the UAE's energy needs, he added, was the multi-billion dollar Dolphin project to bring Qatari gas to the UAE. (Note: Mubadala owns 51% of the Dolphin

project.) In response to A/DCM's question about sales agreements for Dolphin Gas, he stated that he expected a purchase agreement with Dubai and Oman shortly. (Note: Oxy officials (protect) have told us that they believe that the -- long awaited -- Dubai agreement with Dolphin will be decided at the political rather than the commercial level.)

¶13. (C) Al-Mubarak asserted that international gas deals and laying pipelines internationally needed government blessing and needed to be conducted in a transparent manner. He contrasted the "public" process used by Dolphin with Crescent's more secretive style and asked, rhetorically, whether the emirate of

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Sharjah or Crescent had ever publicly admitted "for the record" that the gas would come from Iran. A/DCM reiterated USG concerns about gas deals with Iran. Al-Mubarak replied that the UAE was well aware of USG concerns and ILSA considerations. He concluded by saying, "we'll take care of it," referring to the Crescent deal. A/DCM also asked about Mubadala-Iranian negotiations about providing gas. Al-Mubarak said that he could not go into details, but stressed that Abu Dhabi was "just talking" to Iran. He gave the impression that, for the near term, Abu Dhabi would meet its energy needs from Qatari gas. (Note: As reported in Ref A, the UAE believes that its long-term energy needs are likely to surpass the gas that Dolphin can provide.)

Comment

¶14. (C) In mid-2004, Abu Dhabi and UAEG officials assured the Ambassador and other embassy officials that no company in the UAE could move forward on a gas deal with Iran without the explicit consent of Abu Dhabi. According to Al-Mubarak, this consent has not been given, nor is Abu Dhabi prepared to pay for Iranian gas (at this time). Nevertheless, Crescent appears to be moving forward aggressively to build the infrastructure necessary to bring in Iranian gas. It would appear that, in Crescent's mind and in the mind of Sharjah authorities at least, a lack of consent no longer equates to an out and out prohibition. It is unclear how aggressively Abu Dhabi will act to block a Crescent-Iran deal.

¶15. (U) This Cable has been coordinated with Embassy Abu Dhabi.

DAVIS